

Value Investors
Venture Capital Association



...We are value investors...unlocking value in Africa

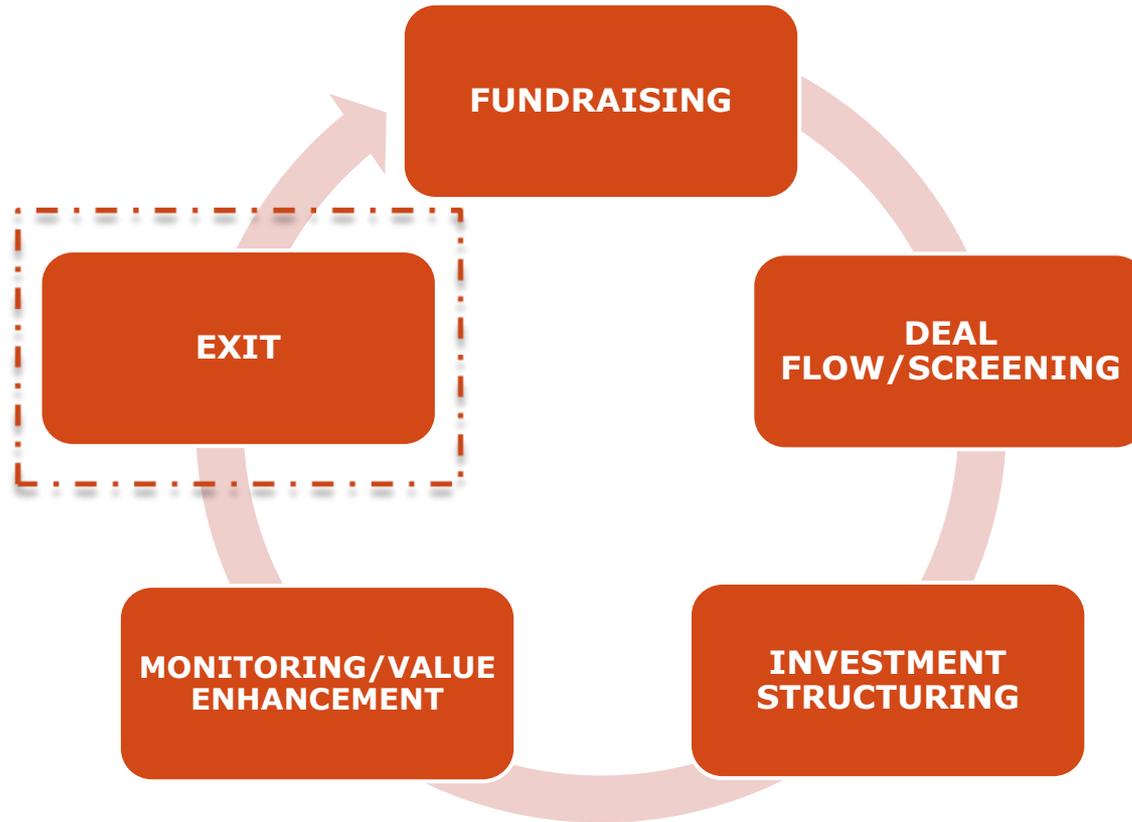
NASD Private Equity Conference

Considerations for Successful Exits

Outline

- ▶ Overview
- ▶ Building blocks for a successful exit
- ▶ Case study of a successful exit
- ▶ Thoughts on PE & the NASD

Overview



Without successful exits, there is no Private Equity business

Overview (cont'd)

- ▶ Begin with the end in mind – proactively develop exit strategies
 - Important to have a plan for exit prior to investment

- ▶ Successful exit is defined by meeting Limited Partners (LPs) timing and returns expectation
 - Returns expectation is usually defined pre-commitment by LPs

- ▶ There are a lot of factors outside the General Partners (GPs) control
 - Macro-environment, liquidity in the market, news cycle etc

- ▶ Exit is a normal feature of the business and a repeat game, GPs should be careful not to be perceived as “cheating” buyers



Overview (cont'd)

Potential Buyers



- ▶ **Strategic/Synergistic Buyers**
 - Local and International Operators
- ▶ **Private Investors**
 - Local entrepreneurs seeking to own businesses
- ▶ **Financial Buyers**
 - Investors seeking higher returns – PE firms, Endowments, HNIs, retail investors

Exit Mechanism



- ▶ **Common Equity**
- ▶ **Preferred Instrument**
 - Usually used to protect downside
- ▶ **Convertible Instrument**
 - Used to bridge valuation differences
- ▶ **Combination of Instruments**
- ▶ **Debt Instruments**

Building Blocks for a Successful Exit



- ▶ Quality of the Asset
- ▶ Alignment with the Promoter
- ▶ Strength of the Execution Team
 - Well-managed process
- ▶ Robustness of the Buyer's Universe
- ▶ Perception of the Corporate Governance Culture

Quality of the Asset



- ▶ Attractive business fundamentals
 - Industry, business model, etc
 - Region or single country focus
 - Expansion plans, outlook
- ▶ Strong financial statements
 - Historical business performance, cash generating, etc
- ▶ Valuable competitive positioning
 - Positioning in the market compared to competitors, outlook, etc
- ▶ Solid Management
 - Management team with strength to navigate market
- ▶ Messaging to the market - communication

Alignment with the Promoter



- ▶ Ensure promoters' or Business' interest are aligned for the sale
 - Typically done at the beginning of the investment - earn-outs, bonus, management incentives, etc
 - What's In It For Me (WIIFM) from the promoter's perspective
- ▶ Successful exit is premised on the commitment of the promoter
 - Promoter and management run the business
 - Their nonchalant commitment can derail exit

Strength of the Execution Team



- ▶ A successful exit requires the working together of a solid team
 - Seller (PE Firm)
 - Management Team
 - Financial Advisory
 - Legal, etc
- ▶ Progressively PE firms have sought the help of financial advisory firms for execution
 - In more developed markets, some GPs have built strong transaction teams
- ▶ There are many inter-related parts, the job of GP is to ensure the team works effectively



Robustness of Buyers' Universe

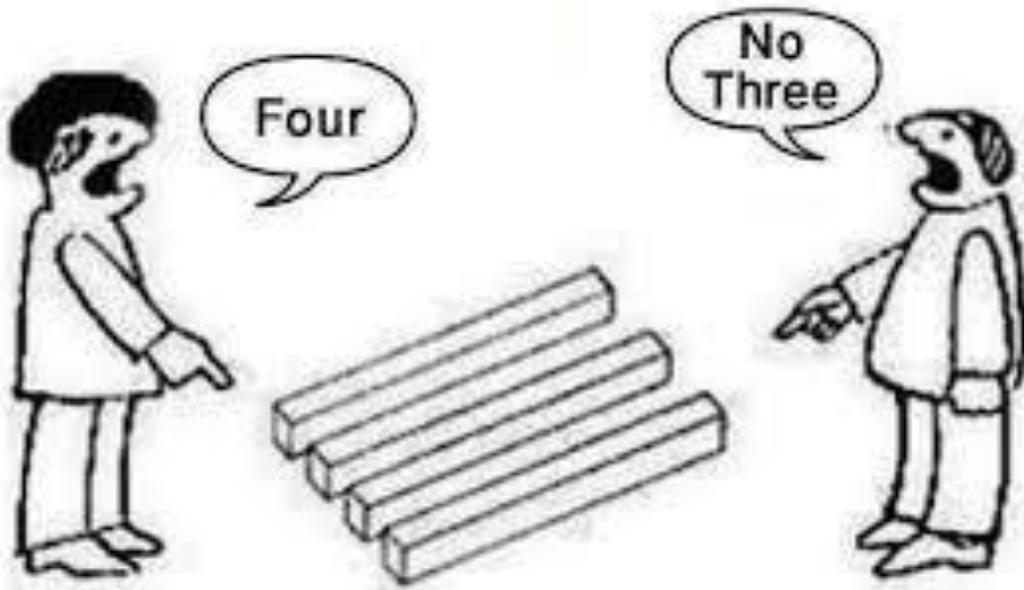


- ▶ It is important to create alternatives to exit
 - Trade Sale – local and international players
 - **Listing**
 - Contracted exit – for instance put option
- ▶ Increase the potential number of buyers
 - Strategic buyers
 - **Financial Investors – institutional and retail**
 - Personal investors
- ▶ Think through all viable exit alternatives
 - IPOs, trade sales, put & call options, structured mezzanine, profit sharing, etc



Perception of Corporate Governance

It is really confusing!!!



When Should a Business be Sold?

- ▶ Objectively Analyze Business's Sales Prospects
 - When the business is performing well
 - When there are good prospective buyers able to act within a reasonable time
 - When the owner is committed to spending the time and money to market the business properly
 - When the condition of financial records are sound - Are the financial statements audited? Possibility of restatement in due diligence? Entity profitability is healthy. Cash flow is strong
 - Corporate governance practices have been instituted within the business
- ▶ Better to sell too early than too late, but pretty nice to sell on time
 - Schedule your transaction by your company's timetable, not "the market"

Case Study



ABC: The Making of a Regional Player



- ▶ Long-standing business started as a passion
 - Established in 1993 after entrepreneur had run the Student Union Transportation service in school
- ▶ Primary business of providing road transportation services between major cities
 - Started off providing services within Nigeria and eventually West Africa. Other business lines – cargo and courier services, cash transfer and lodging
- ▶ Entry strategy was to target middle/high income segment of the market by delivering premium quality transportation services
 - Provide greater level of comfort and convenience and charge a premium
- ▶ Company executed strategy appropriately and was acknowledged with awards to entrepreneur and company
 - FATE Foundation entrepreneurship award, 2001, Best Road (Passenger) Transport Company of the Year , 2002, land transporter of the year, Traveller's Magazine 2003



Customer Testimonials

Its nice to note that you place safety first in your order of preference...

Armstrong (Calabar)



I am very happy with your services. Your company is big and fast-growing...

Daniel (Accra, Ghana)



The services of ABC Transport is unique. For close to 2 decades, ABC has been making unpredictable positive changes in the Nigerian and West Coast transport industries....

Rev. Judith (Owerri, Imo)



"The attitude of your booking staff at PHC terminal was nothing but very courteous..."

Augustine (Amuwo)



Deal Sourcing and Execution



- ▶ Having successfully executed strategy in the local market, ABC sought expansion capital to fund growth
 - Operate across West Africa
 - Expand product offerings

- ▶ Sourced through ACA partners' proprietary network
 - Long-standing relationship with the entrepreneur

- ▶ Culminated in a \$2.3mm investment in ABC Transport for 30percent of the business
 - Structured as mezzanine and equity



Investment Rationale

- ▶ Competent entrepreneur with proven track record and significantly invested in the business

- ▶ Clear path to exit

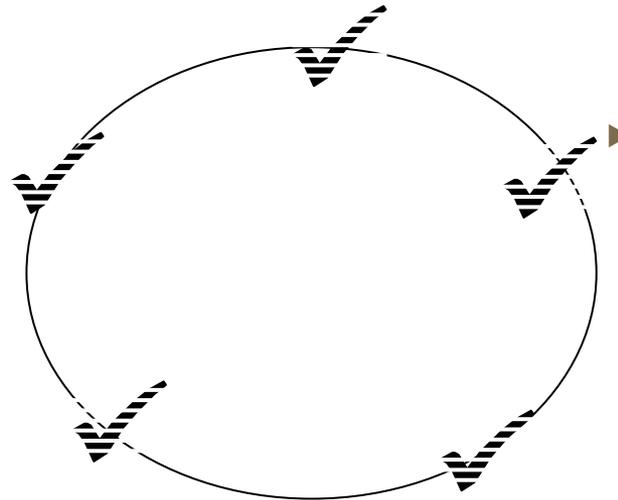
- ▶ Leading operator in niche market

- ▶ Strong cashflows

- Customers pay cash in advance or at purchase

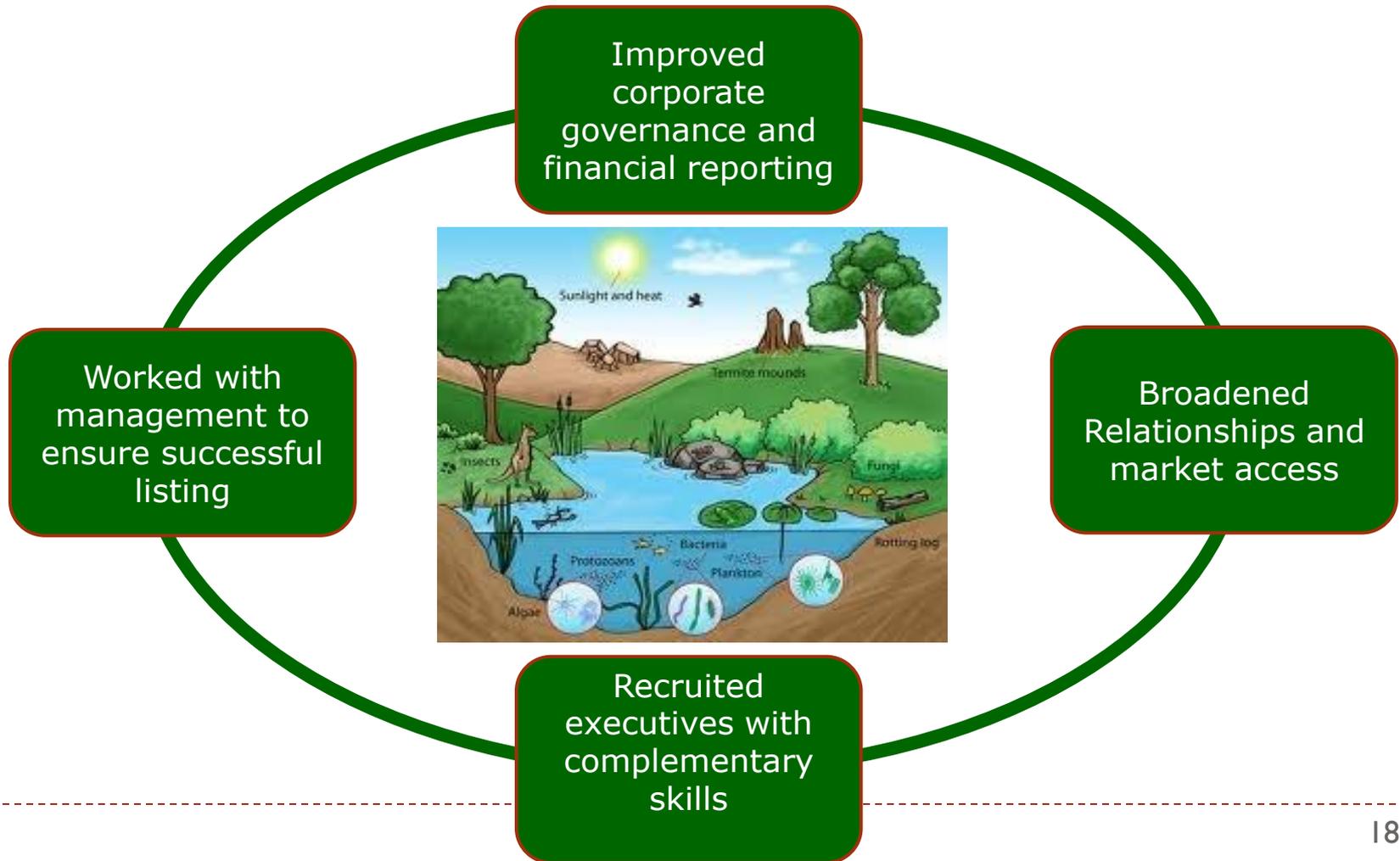
- ▶ Strong historical growth

- Revenue growth of over 20% CAGR



Value Addition: In Preparation for Exit

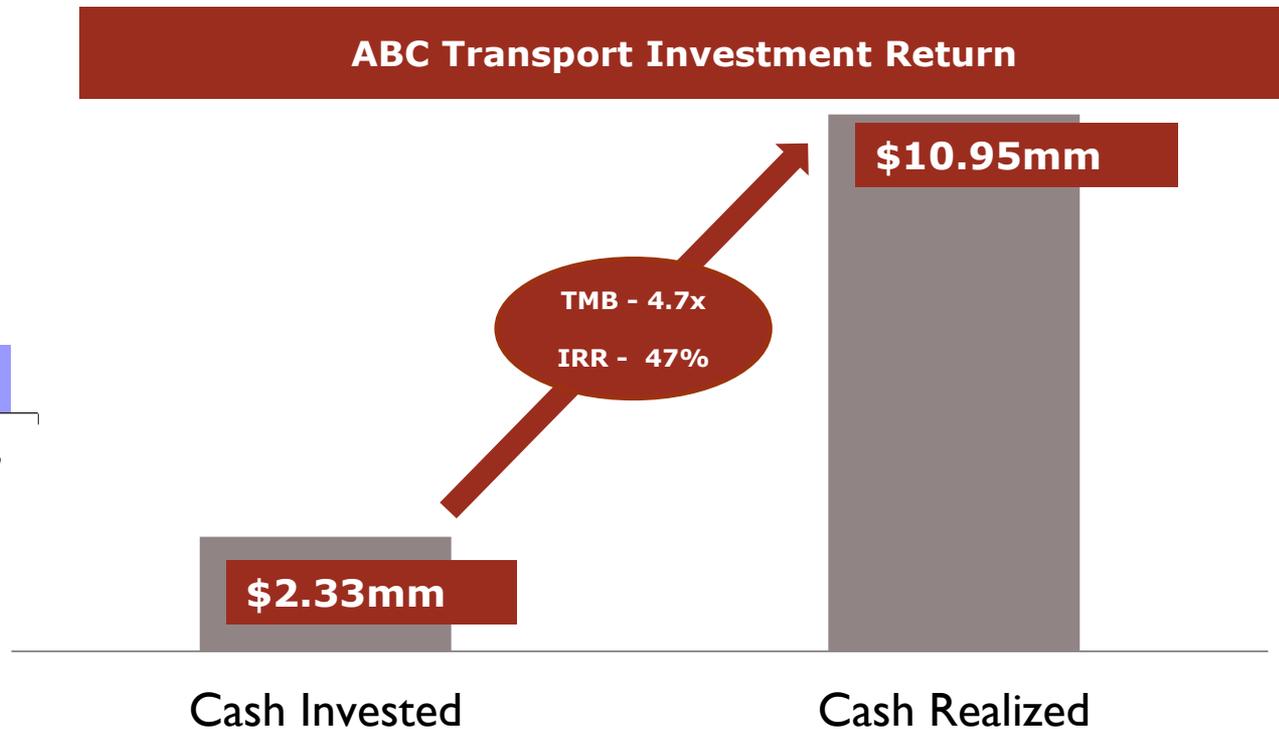
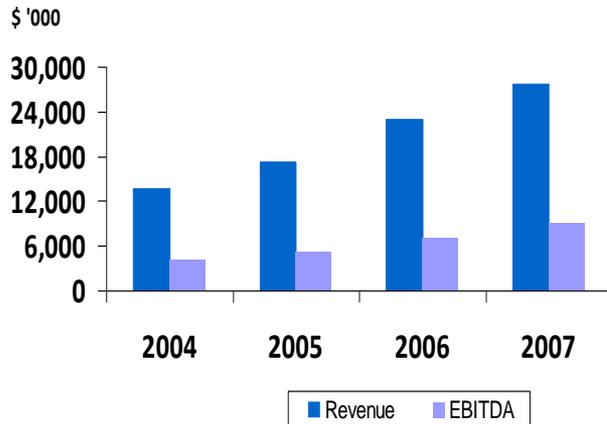
- ▶ Providing the “Ecosystem” that made the company thrive:



Successful Exit

- ▶ Company achieved successful regional expansion and public listing

Revenue & EBITDA



Conclusion on Exits

- ▶ Proactively develop exit strategies
 - Important to have a plan for exit prior to investment
- ▶ Alignment of interest is key to exit
- ▶ Successful exit is defined by meeting Limited Partners (LPs) returns expectation
 - Returns expectation is usually defined pre-commitment by LPs
- ▶ Be patient and persistent – there are usually bumps along the way of exit



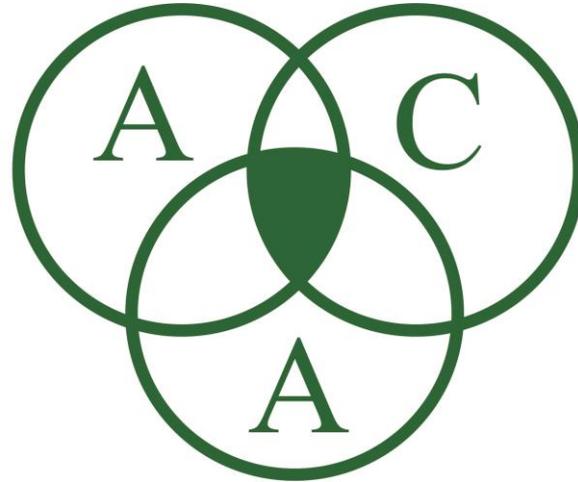
Thoughts on PE & the NASD

- ▶ The NASD could become a viable option for PE exits
 - The process should begin with the NASD developing a unique value proposition and brand that excites market participants
 - Working with market participants to strengthen the regulatory framework should remain a priority
- ▶ A focus on providing liquidity for structured instruments may be a good place to start
 - Although PE investors often try to organize these to be self-liquidating, sometimes it may be better to just sell them
- ▶ Perhaps the conversation should not only be limited to exits
 - There may be scenarios where an investment could be supported by working with the NASD (i.e. PPPs)
- ▶ Markets are about Innovation & Confidence. All Stakeholders should continue to work together so we have a robust capital markets
 - ▶ **Let this be the beginning!**



Thank you

Question and Answers



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